



Written Testimony
of
Potomac Electric Power Company

October 21, 2013

Before the
Council of the District of Columbia
Committee on Government Operations
The Honorable Kenyan McDuffie, Chairperson
and
Committee on Finance and Revenue
The Honorable Jack Evans, Chairperson

**Testimony of Potomac Electric Power Company
On
Bill 20-387
“Electric Company Infrastructure Improvement Financing Act of 2013”**

Introductory Comments

Good Afternoon Chairperson Evans and Chairperson McDuffie, members of the Council of the District of Columbia Committee on Finance and Revenue and the Committee on Government Operations, attending Councilmembers and staff, and the listening and participating audience. I am Joe Rigby, Chairman, President and Chief Executive Officer of Pepco Holdings, Inc. I am joined today by Kenneth Parker, Senior Vice President, Government Affairs and Corporate Citizenship, Pepco Holdings, Inc.; Donna Cooper, President, Pepco Region, Donna was a member of the UG Legislative and Government Affairs Committee; Bill Gausman, Senior Vice President, Strategic Initiatives, Pepco Holdings, Inc., Bill chaired the Mayor’s Power Line Undergrounding (“UG”) Technical Committee; Kevin McGowan, Vice President, Regulatory Affairs, Pepco Holdings, Inc., Kevin served as a member of the UG Finance Committee; Peter Meier, Vice President, Legal Services, Pepco Holdings, Inc.; and Marc Battle, Associate General Counsel, Pepco Holdings, Inc., Marc served as a member of the UG Legislative and Government Affairs Committee. On behalf of both PHI and Pepco, we appreciate the opportunity to testify at this very important hearing to address the important topic of undergrounding power lines to reduce the vulnerability of the electric system during severe weather conditions.

Pepco has the distinct privilege as well as the important responsibility to deliver electric service to the residents, businesses and local and federal government entities in the District of Columbia. It is a privilege and responsibility that we take very seriously, and as such, we work

every day to continuously enhance the reliability of the electric distribution system serving our valued customers.

As part of this ongoing effort, in September 2010, we announced a comprehensive Reliability Enhancement Plan for the District of Columbia. Among other initiatives, our Plan includes investing in new technology to serve our customers better and also making significant customer care improvements. September 30th marked the 3 year anniversary of the implementation of this Plan in the District of Columbia, and I am pleased to report that we and our customers are seeing positive results. The plan is working as District customers are receiving a level of reliability more favorable than the standards established by the Public Service Commission [and in the top half of all utilities nationally based on 2012 outage frequency and duration data]. Nevertheless, our commitment to continuous improvement remains and we believe this proposal will deliver dramatic improvements.

Mayor's Power Line Undergrounding Task Force

Pepco's active participation on the Mayor's Power Line Undergrounding Task Force is reflective of our commitment to continuous improvement. As you are well aware, in June of 2012, the District of Columbia and other parts of the country were unexpectedly impacted by a significant weather event that we came to know as a "Derecho." The fast-moving but highly destructive storm caused more than 120,000 customer power outages in the District of Columbia. Across the Mid-West and Mid-Atlantic regions, nearly 4 million utility customers experienced outages as a result of the Derecho. Unquestionably, the impact of extreme storms on public health, safety, welfare and the economy cannot be ignored. This storm, along with Superstorm Sandy in October 2012, has provided a tipping point in terms of grid resiliency, economic and human impacts, and the expectations of our customers.

It was in the aftermath of the Derecho that Mayor Gray called for a “game changer” to address the dramatic increase in the number of significant weather events experienced in this region. Pepco welcomed the initiation of a collaborative process to develop a plan to mitigate the impact of events like this on electric service. I was honored when the Mayor asked me to co-chair the Task Force. In this role, I was able to personally work with his team and the other members of the Task Force, and to deploy the Company’s subject matter experts to assist in this complex matter. A Task Force was chosen as the vehicle to develop a collaborative public-private partnership approach to implement this unprecedented effort.

After more than nine months of careful study, spirited discussions and hard work from all involved, the Task Force issued a recommendation for a \$1 billion undergrounding project that will be completed over a 7 to 10 year period. On July 9, 2013, legislation drafted in support of this plan was introduced for this body to consider.

The plan developed by the Task Force continues in the model of partnership that has been key to the successful work of this group. The proposed funding structure of the undergrounding plan employs both public and private investment. Pepco will be investing \$500M using a traditional utility debt/equity model, and the District of Columbia will fund in excess of \$400 and up to \$500 million of the cost, through a combination of special purpose debt and capital improvements. This resulted in a very innovative financing approach which includes maximizing the securitized debt at \$375M. As City Administrator Lew noted during his testimony, while the District of Columbia government will issue revenue bonds, the issuance will not impact the District debt cap and will be funded through surcharge on electric customers’ bills.

It is important that all stakeholders realize that at its peak, the overall cost to the average residential customer is estimated at approximately \$3.25 per month, or just over 10 cents per day.

In addition, the legislation exempts Residential Aid Discount program participants from this surcharge. We also recognize that there will be a cost for commercial customers, and will work with all stakeholders to identify opportunities to reduce these impacts.

We have worked very diligently and thoughtfully to craft a plan that:

- Is achievable from an implementation and financing perspective;
- Will result in significant reductions in the number of and duration of outages that result from adverse weather conditions;
- Is affordable and fair;
- Is based on data-driven engineering solutions;
- Embraces implementation equity, which means that the project will bring benefits to all of the targeted Wards; and
- Embraces a comprehensive customer outreach and engagement strategy.

The plan calls for extensive coordination and cooperation between the District of Columbia Department of Transportation and Pepco for design, engineering and construction, and the work and expenditures will be subject to the oversight of the Commission. When completed, this long term plan will result in approximately 60 primary lines across the District of Columbia being undergrounded.

In addition to achieving the basic goal of undergrounding power lines, this project will also support the District 5 Year Economic Development Strategic Plan. It is estimated that more than 4,000 jobs will be created during that period between the work to be performed by the District and Pepco.

The Task Force has studied this issue comprehensively, and the well thought out and detailed plan before the Council will result in improved storm resiliency, safety and security for

the nation's capital, its residents, its businesses, visitors and other critical stakeholders. The District will be at the forefront of cities and states nationally that are developing and implementing plans to mitigate the effects of increasingly hostile weather events.

Closing Remarks

In closing, it is Pepco's top priority to meet and exceed the expectations of our customers and other stakeholders by providing safe and reliable electric service. Pepco remains committed to continuing to achieve this important goal by enhancing its distribution system through our Reliability Enhancement Plan. The proposed initiative before you today takes that effort to a new level, promising a comprehensive and long lasting response to routine and increasingly severe weather events. I have truly appreciated co-chairing the Task Force and working with all of the stakeholders involved to develop a plan that will improve the resiliency of the electric distribution system in the District of Columbia.

Pepco thanks the Committees on Finance and Revenue and Government Operations for convening a Public Hearing on this very important subject. I want to particularly thank Allen Lew who worked tirelessly to pull this together. Allen spent many hours with all of the Task Force members to assimilate different approaches, methodologies and thoughts into a coherent and comprehensive public-private partnership. This proposal is unprecedented and has been recognized by others, nationally. We appreciated hearing the testimony of our customers and other stakeholders that are in the room today. I would like to turn it over to Bill Gausman at this time to address the technical aspects of the plan.

We are then available to address your questions.

Thank You.